

## Message Text

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ACTION AGR-08

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EO 11652: N/A

TAGS: EFIN, CI

SUBJECT: INFLATION IN AUGUST

REF: SANTIAGO 7616

1. THE NATIONAL INSTITUTE OF STATISTICS (INE) HAS ANNOUNCED THAT THE CONSUMER PRICE INDEX (CPI) FOR AUGUST ROSE BY 5.5 PERCENT. THIS WAS THE LOWEST MONTHLY RATE OF INCREASE SINCE FEBRUARY 1973 AND IS EQUIVALENT TO A YEARLY RATE OF 90 PERCENT. JULY'S RATE WAS 8.9 PERCENT, EQUIVALENT TO A YEARLY RATE OF 178 PERCENT. SO FAR THIS YEAR, THE RATE OF INCREASE HAS BEEN 119 PERCENT, IN CONTRAST TO LAST YEAR'S 221 PERCENT BY THE END OF AUGUST.

2. INCREASES BY CATEGORIES WERE: FOOD 7.7 PERCENT, HOUSING 2.2 PERCENT, CLOTHING 6.3 PERCENT, MISCELLANEOUS 1.5 PERCENT. THESE FIGURES REPRESENT PERCENTAGE POINT DECREASES FROM THE JULY RATE OF INCREASE OF: FOOD MINUS 3.6 PERCENT, HOUSING MINUS 4.3 PERCENT, CLOTHING MINUS 1.8 PERCENT AND MISCELLANEOUS MINUS 3.7 PERCENT.

3. COMMENT: AUGUST INFLATION WAS LOWER THAN GENERALLY HAD BEEN ANTICIPATED. ONE OF THE REASONS FOR THE LOWER RATE OF INFLATION IS PURELY METHODOLOGICAL, THE AUGUST FIGURE NOT LIMITED OFFICIAL USE

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REFLECTING THE LARGE STATISTICAL RESIDUAL FROM LARGE PRICE

INCREASES IN JUNE. NOR DID IT INCLUDE PRICE INCREASES IN RENTALS AND MEDICAL SERVICES. THESE ARE SURVEYED AT QUARTERLY INTERVALS ONLY.

4. MOREOVER, THE IMPACT OF THE JUNE 29 REVALUATION WAS NOT FELT AS SIGNIFICANTLY IN JULY AS IN AUGUST. TOWARD THE END OF JULY, CHEAPER IMPORTS BEGAN TO EXERT A DOWNWARD PRESSURE ON PRICES. THIS DOWNWARD PRESSURE WAS MAINTAINED BECAUSE THE DAILY "CRAWLING PEG" DEVALUATIONS LAGGED BEHIND THE RATE OF PRICE INCREASES. HOWEVER, THE CPI IN SEPTEMBER AND SUBSEQUENT MONTHS IS NOT LIKELY TO BENEFIT, AS DID THE AUGUST CPI, FROM THE SAME KIND OF ONE-TIME CIRCUMSTANCE WHICH TENDED TO SLOW DOWN THE RATE OF CONSUMER PRICES INCREASES. THE PESO HAS NOW REACHED, AND SURPASSED THE RATE PREVAILING AT THE TIME OF THE JUNE REVALUATION, SO THAT THE SAME DOWNWARD PRESSURE ON PRICES EXERCISED BY THE EXCHANGE RATE NO LONGER PREVAILS.

5. WHAT EXCHANGE RATE READJUSTMENTS THE GOC MAY ANNOUNCE FOR SEPTEMBER IS A SUBJECT OF DISCUSSION. EXPORTERS AND THOSE DOMESTIC PRODUCERS WITHOUT SIGNIFICANT IMPORTED PRODUCTION INPUTS ARE BRINGING PRESSURES ON THE GOVERNMENT TO DEVALUE THE PESO AT A FASTER RATE. THIS WOULD MAKE COMPETING IMPORTS MORE EXPENSIVE. IT WOULD ALSO ENABLE EXPORTERS TO EARN MORE DOLLARS FOR THE SAME PESO EXPENDITURE. IT WOULD ALSO INCREASE INFLATIONARY PRESSURES.

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